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Whitney Hatch  
Assistant Vice President  
Regulatory Affairs

GTE Service Corporation  
1850 M Street, N.W., Suite 1200  
Washington, D.C. 20036  
202 463-5290

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NOV 22 1994

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

November 21, 1994

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

RE: EX PARTE MEETING ON CC DOCKET NO. 94-1

Dear Mr. Caton:

Pursuant to Section 1.1206 of the Commission's Rules, GTE is filing with the Secretary's office two copies of materials discussed in an *ex parte* presentation relating to the above docket on November 21, 1994.

GTE representatives met with Kathleen Wallman, Dan Grosh, Alex Belinfante, Anthony Bush, Anna Gomez, Karen Brinkmann, Jim Casserly, Jim Coltharp and Richard Welch to discuss issues relating to CC Docket No. 94-1. GTE discussed points already made on the record in the above proceeding, as well as those in the attached materials.

Please call me at 463-5293 if you have any questions.

Sincerely,

Whitney Hatch

Attachments

- c: Alex Belinfante - 1919 M Street, NW - Room 822
- Karen Brinkmann - 1919 M Street, NW - Room 814
- Anthony Bush - 1919 M Street, NW - Room 822
- Jim Casserly - 1919 M Street, NW - Room 832
- Jim Coltharp - 1919 M Street, NW - Room 826
- Anna Gomez - 1919 M Street, NW - Room 500
- Dan Grosh - 1919 M Street, NW - Room 518
- Richard Welch - 1919 M Street, NW - Room 844
- Kathleen Wallman - 1919 M Street, NW - Room 500

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List A B C D E

# GTE Price Caps

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- ◆ Basic Principles of Price Caps
- ◆ Perspective on Price Caps
- ◆ Need for Access Reform
- ◆ Competition Experienced by GTE

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# GTE Price Caps

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## Basic Principles of Price Caps

- ◆ Price Caps review should look to the future
- ◆ Make as symmetric as possible with other competitors (AT&T, CAPS, cable industry, etc.)
- ◆ Let market guide efficient investment in the NII
- ◆ Price Caps should provide competitive pricing signals and reasonable expectations for all participants

# GTE Price Caps

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## Basic Principles of Price Caps (Continued)

- ◆ Price Caps must accommodate existing competition and anticipate future competition
  - GTE is already facing substantial access competition
  - GTE has responded to competition by price reductions, service quality programs, etc..
- ◆ Price Cap structure should provide flexibility to meet market conditions
  - Current rules inhibit new services, customer satisfaction and innovation

# GTE Price Caps

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## Basic Principles of Price Caps (Continued)

- ◆ Price Caps must be fair
  - Flexibility should permit adaptation to specific market situations
  - Productivity factors must be clearly derived and consistently applied
  - Some market participants (LECs) should not be manipulated for the advantage of others (IXCs)
- ◆ Price Cap decisions should move in the direction of access reform
  - Make the maximum progress possible now
  - Continue the process of reform needed in an increasingly competitive access market

# GTE Price Caps

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Perspective on Price Caps  
GTE's Interstate Rate of Return  
During the Price Cap Period

1991	11.74%
1992	11.22%
1993	10.25%

# GTE Price Caps

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## Perspective on Price Caps (Continued) GTE's Earnings Compared to Similar Firms (1991 - 1993)

		S&P Industrials Percentile
AT&T's actual earned ROE	16.45%	69.15%
MCI's actual earned ROE	18.90%	75.80%
GTE's implied interstate ROE	12.85%	54.26%

# GTE Price Caps

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## Perspective on Price Caps (Continued) GTE's Infrastructure Investments (\$ in millions)

1989	\$2,843
1990	2,870
1991	2,737
1992	2,663
1993	2,666
1994 (Estimated)	<u>2,663</u>
Total	\$16,442

# GTE Price Caps

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## Need for Access Reform

- ◆ Need to accommodate differing degrees of competition
  - By service
  - By location
- ◆ Markets can be classified as
  - Initial Market Area (IMA)  
No competition
  - Transitional Market Area (TMA)  
Existence of competition
  - Competitive Market Area (CMA)  
Very active competition

# GTE Price Caps

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## Competition Experienced by GTE GTE's Below Cap Pricing (\$ in 000)

Carrier Common Line	\$351,280
Total Traffic Sensitive	36,909
Total Trunking	26,688
Interexchange	<u>6,285</u>
Total Access	\$421,162

GTE cut access prices by approximately \$0.7 billion from the beginning of Price Caps through May 1994. Conversely, interstate long distance rates have increased 13%.

# GTE Price Caps

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## GTE's Competitive Threat from CAPs

- ◆ GTE has CAPs operating in its major market areas, such as Los Angeles, Durham, Tampa, and Dallas.
- ◆ GTE also has CAPs operating in many smaller communities such as Fort Wayne, IN, Grand Rapids, MI, Beaverton, OR, Hobbs, NM, and Broken Arrow, OK.
- ◆ GTE has at least one CAP in each of its 10 largest wire centers (ranked by usage).

# GTE Price Caps

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## Competition from Cable Affiliated CAPs and LECs

- ◆ TCI/Teleport in Dallas, Seattle, and Los Angeles areas
- ◆ Jones Lightwave in St. Petersburg, FL.
- ◆ Indiana Digital Access in Indianapolis and Lafayette
- ◆ Time-Warner Communications throughout Ohio

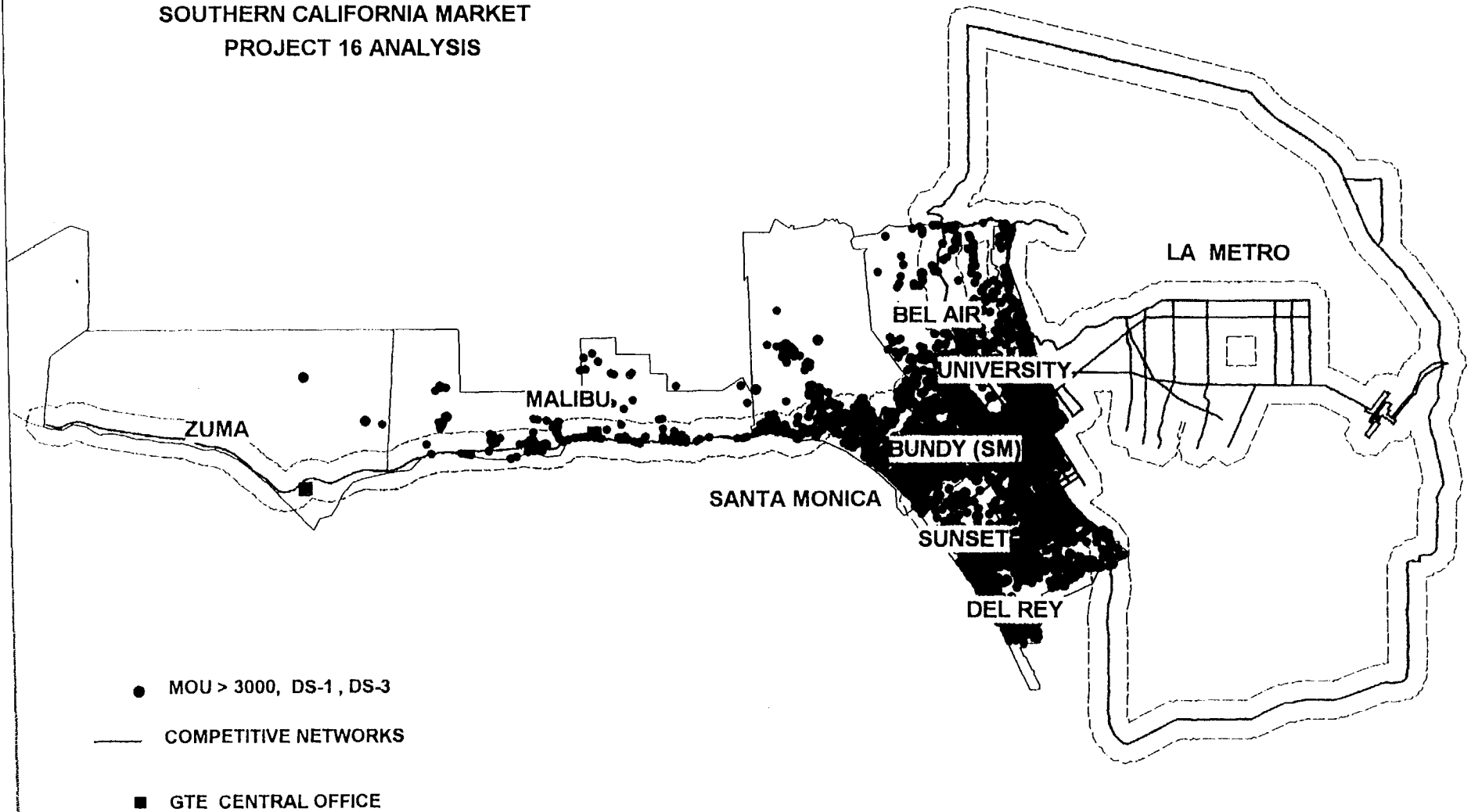
# GTE Price Caps

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Electric Utilities in GTE's Operating Areas Are Actively Seeking to Become Competitors

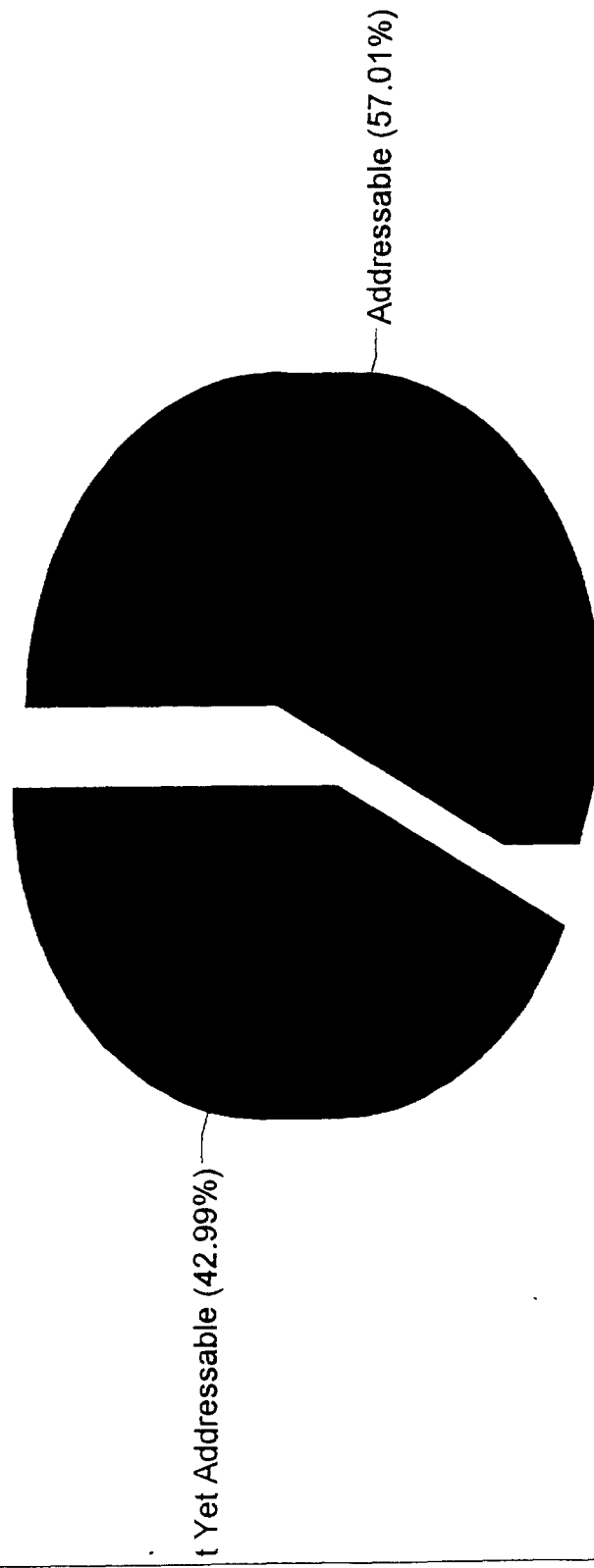
- ◆ Tampa Electric Company proposed to the NTIA that the electric network is the natural choice for establishing tomorrow's communications links.
- ◆ TECO presently negotiating joint venture with MFS and Intermedia Communications Inc. of Florida

SOUTHERN CALIFORNIA MARKET  
PROJECT 16 ANALYSIS

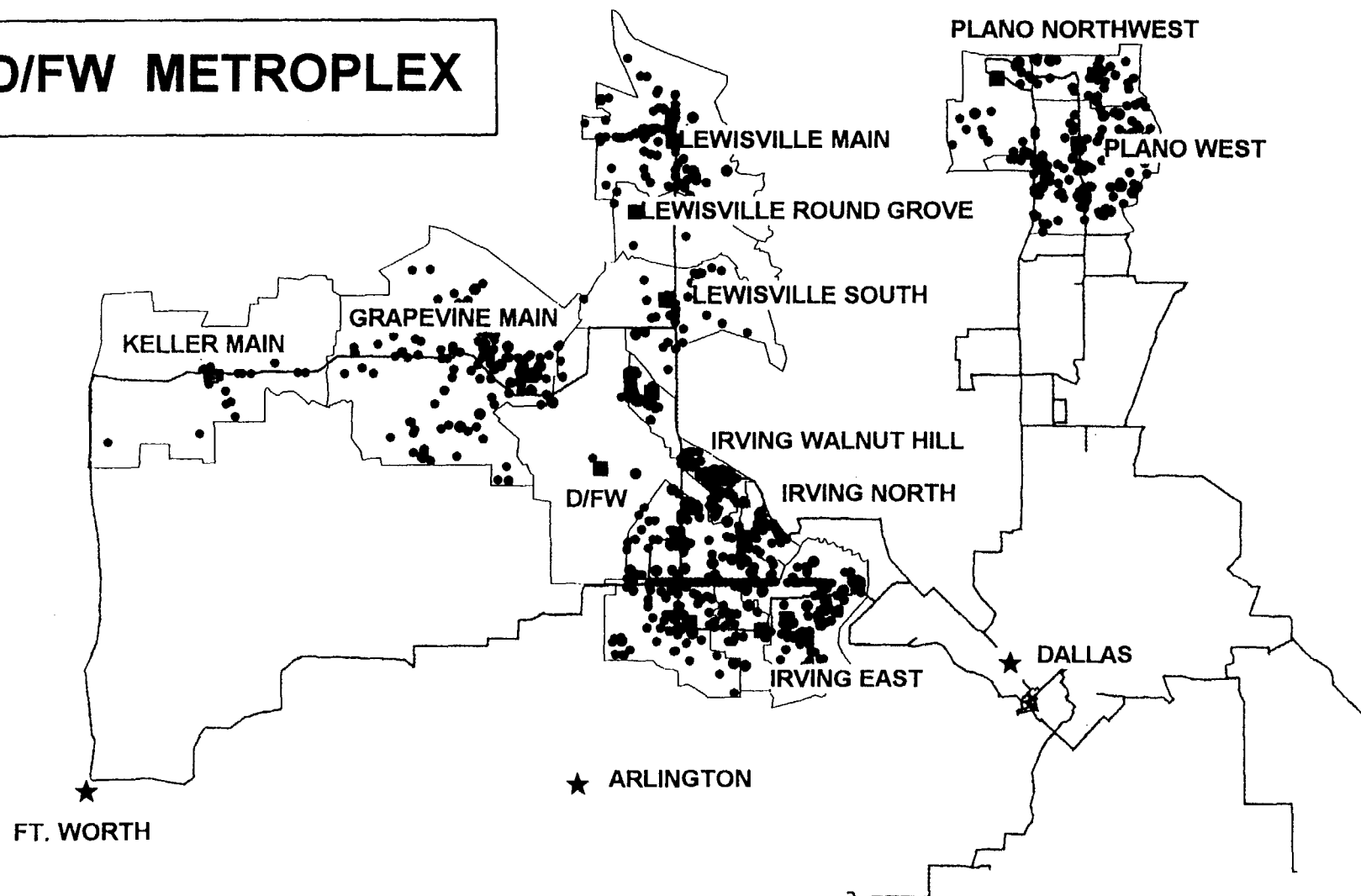


# Addressability Analysis

## End User Switched & Hi-Caps



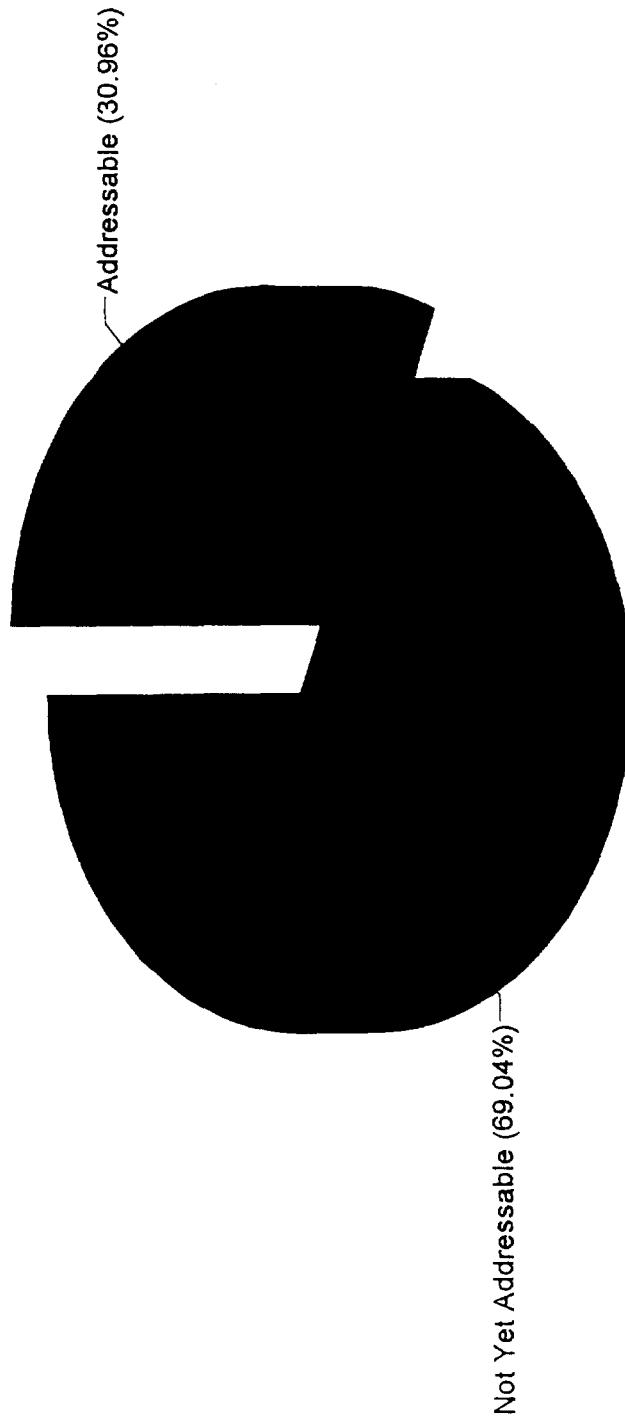
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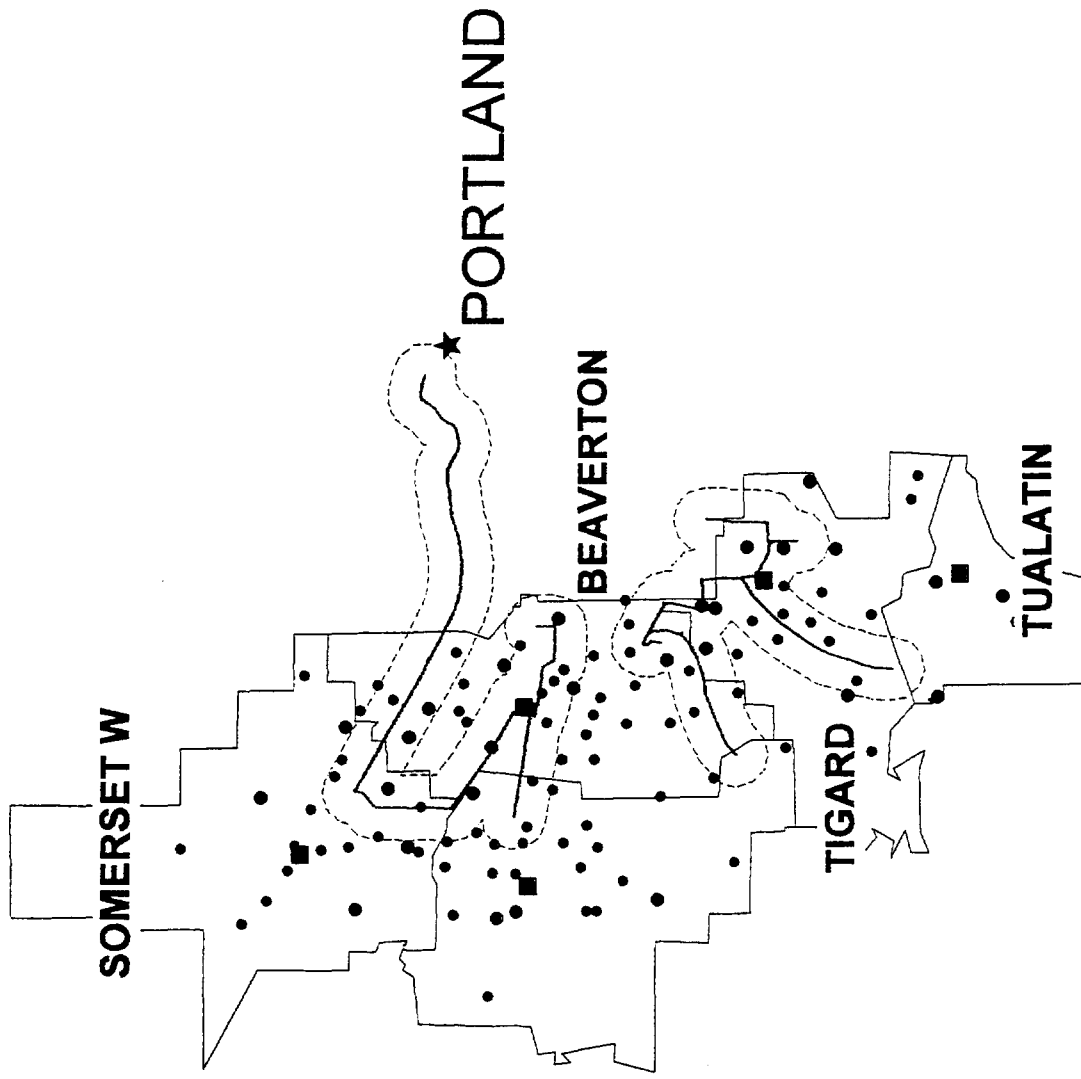
# Addressability Analysis

End User Switched & Hi-Caps

IRVING/PLANO

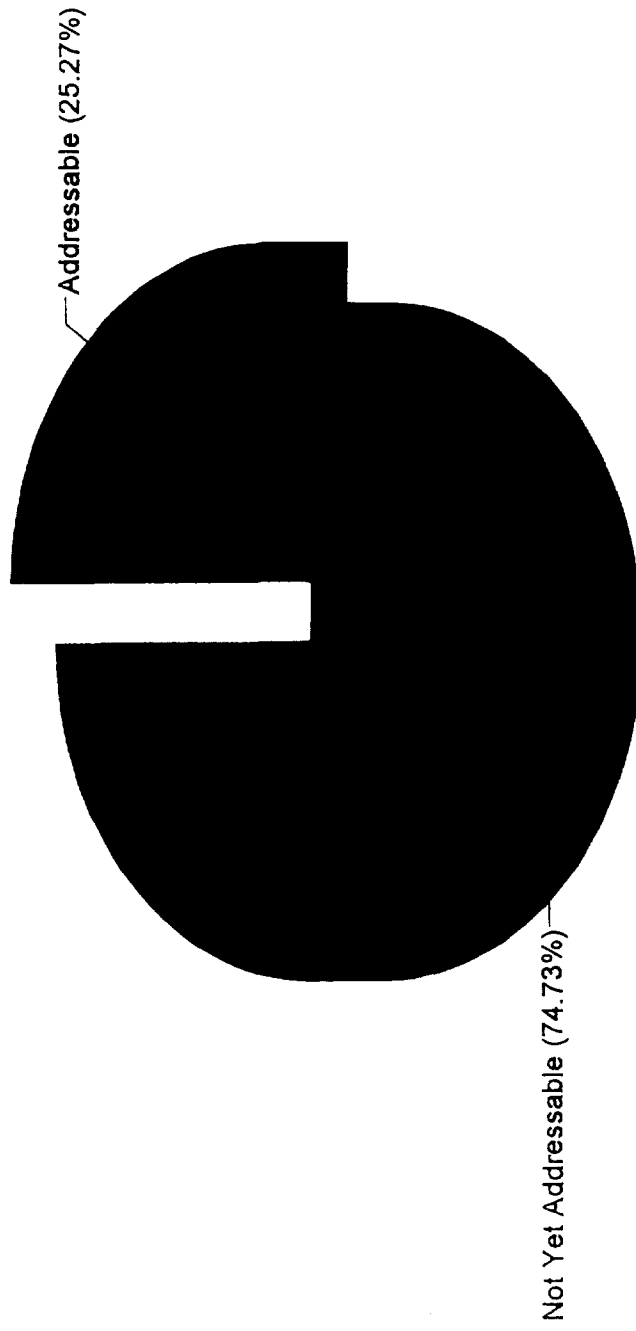


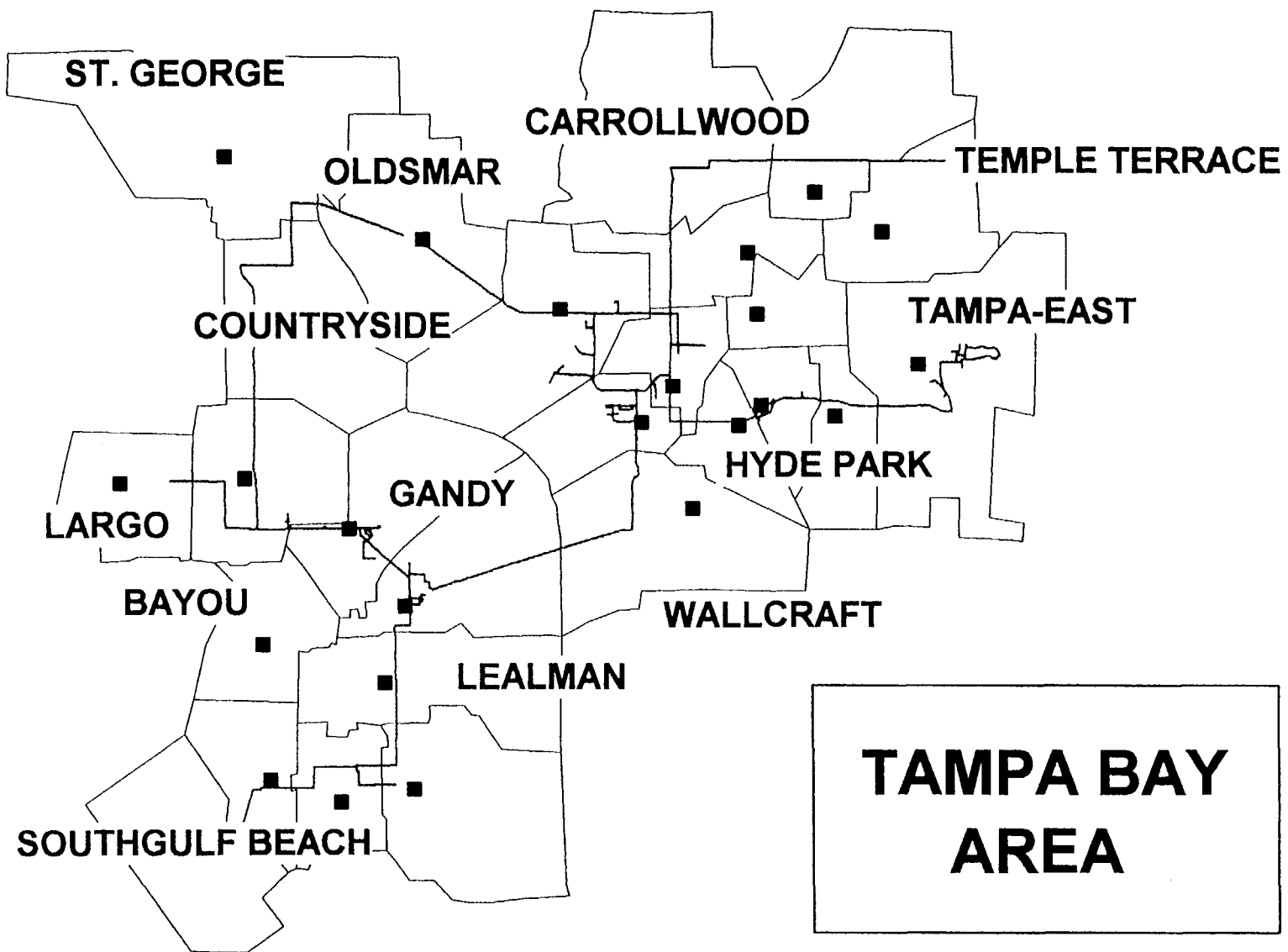
# BEAVERTON



# Addressability Analysis

End User Switched & Hi-Caps





# Addressability Analysis

## End User Switched & Hi-Caps

